

094507

United States General Accounting Office
Washington, D.C. 20548

For Release on Delivery
Expected at 10 AM EST
April 17, 1972

STATEMENT OF
ELMER B. STAATS
COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
UNITED STATES SENATE
ON

SEN 1502
G 1

Comments on

S. 3140, A BILL TO IMPROVE THE FINANCIAL MANAGEMENT
OF FEDERAL ASSISTANCE PROGRAMS;
TO FACILITATE THE CONSOLIDATION OF SUCH
PROGRAMS; AND FOR OTHER PURPOSES

BEST DOCUMENT AVAILABLE

Mr. Chairman and Members of the Committee:

We are pleased to appear here today, at your request, to present our views on S. 3140, a bill to improve the financial management of Federal assistance programs and to strengthen congressional review of Federal grants-in-aid by extending and amending the law relating to intergovernmental cooperation.

THE GENERAL ACCOUNTING OFFICE INTEREST AND ACTIVITIES
RELATING TO FEDERAL ASSISTANCE PROGRAMS

The General Accounting Office, because of its responsibilities concerning federally assisted programs, has been and continues to be concerned with the problems resulting from the dramatic growth in these programs. Federal

Intergovernmental relations
Federal/State relations
Federal aid to States
Federal aid to localities

Program management
Audit authority
Financial management

094507

709906

assistance for these programs has risen from just over \$3 billion in 1955 to an estimated \$43.5 billion, (includes \$5.3 billion for revenue sharing) in 1973. Assistance will be given to programs conducted by 50 States, 3,000 counties, and nearly 90,000 local government units. The assistance is provided by over 20 departments of the Executive Branch and is estimated to number in excess of 1,300 programs.

Our own interest and concern with these large federally assisted programs originates in

- our basic responsibility for auditing Federal activities
- our interest in promoting economical and efficient administration of all federally funded programs
- our concern for the adequacy of audits made by Federal agencies and by or for State and local governments where Federal funds are concerned
- our interest in improving Federal financial management practices and in providing assistance to the States and local governments in the area of auditing.

BEST DOCUMENT AVAILABLE

We have established working relationships with the staffs of both congressional subcommittees on intergovernmental relations; those Federal agencies with large grant programs; the National Association of State Auditors, Comptrollers and Treasurers; the National Legislative Conference of the Council of State Governments; as well as its National Association of State Budget Officers; the Municipal Finance Officers Association and many other such public interest groups.

We have worked closely with the Advisory Commission on Intergovernmental Relations and have participated in meetings of the public interest groups and along with the other members of the Joint Financial Management Improvement Program we have completed the second of a series of annual financial management conferences for State Financial Managers.

We have added to our staff an Intergovernmental Relations Group to deal with problems in the intergovernmental area and to provide assistance to the States and local governments relative to audit operations.

In 1969, as a member of the Joint Financial Management Improvement Program, I participated in issuing a report which reviewed the financial administration of grants-in-aid and developed recommendations for simplification and improvement in the financial management of the federally assisted programs. This report was issued by a survey team chaired by a representative of the General Accounting Office and included members from those departments and agencies with large grant programs.

BEST DOCUMENT AVAILABLE

The report included these important findings and recommendations:

1. Grant consolidation should be expedited to simplify the complexity of instructions, forms and procedures now prescribed.
2. Financial reporting should be simplified to eliminate overlapping and complicated Federal requirements.
3. Audit administration should be simplified to eliminate overlapping and excessive audit operations.

In 1970 the General Accounting Office started a project to develop standards for auditing federally assisted programs so that audits conducted by or for States and local governments could be used in lieu of auditing by the grantor Federal agencies. A second objective of these standards was to improve the audits conducted by the States and local governments so that their entire programs could be better monitored and consequently better managed, thereby increasing the benefits to society as a whole.

This project, under the chairmanship of a GAO representative, was conducted by 10 full-time representatives of agencies with large grant programs and included representatives of States and local governments, and the academic community. In September of last year a draft of the standards was distributed to various State auditors, public interest groups, professional associations and Federal departments and agencies. We are now completing our revision of the standards after considering the constructive criticisms and recommendations that were received.

In addition to this large project, we have been engaged in several other important efforts all pointed toward the improvement of auditing in the intergovernmental area.

These include:

- (1) The development of plans for the coordination of audit effort at the regional level.
- (2) The development of a series of demonstration audit projects through our Regional Offices that will involve the expertise of GAO audit staff, executive agency auditors, and State or local auditors as a combined team.

- (3) The writing of an instruction booklet to be provided to State legislators and State executive agency managers explaining the use of performance audits as a management tool.
- (4) The development of model audit laws for State legislative auditors and for the auditors of local governments.

A draft of a model State law is now being reviewed by State auditors and other interested parties. We will be developing a model audit ordinance for local governments during the next summer.

These and other projects on which we are working are pointed toward the improvement of auditing in the public sector.

Turning now to S. 3140, we have the following comments on certain of its provisions.

Accounting, Auditing, and Reporting
of Federal Assistance Funds

Title I of the bill would add a new title VII to the Intergovernmental Cooperation Act of 1968 relating to accounting, auditing, and reporting of Federal assistance funds. Our comments on this title are identified to the proposed title VII and the sections thereof.

We believe that section 701, which states the purpose of the title, and section 702 should be expanded to cover other administrative requirements that are the subject of the current Federal Assistance Review (FAR) program, under direction of the Office of Management and Budget. We also suggest that the language in section 701 as well as sections 703(a), (b), and (c) and 704(b) not refer to "principles and standards" since only standards are appropriate.

The provisions of section 703(a) are in accord with our suggestions on prior similar bills. However, as already noted, the General Accounting Office, working with an Inter-agency Audit Standards Work Group has been actively engaged in developing audit standards for application in Federal assistance programs. After further consideration of this matter including discussions with the Office of Management and Budget and State auditors, we have concluded that it would be desirable to centralize the audit standards in an audit-oriented Federal agency. Accordingly we suggest that section 703(a) be revised to provide that the General Accounting Office, in consultation with the Office of Management and Budget, develop and issue such audit standards.

The Office of Management and Budget advised us informally that they are in agreement with this change.

We suggest further that "State and local governments" be substituted for "audit organizations" on lines 8 and 9 of page 3 because these governments will have the primary responsibility for the implementation of the audit standards through their own audit organizations and independent public accountants.

We suggest that subsection 703(b) be revised to express in more simple terms the purpose of this subsection.

We believe that section 704 should provide for the establishment of an organization to provide liaison between the Federal agencies and the States and local governments in the implementation of the audit standards and to coordinate their audit activities. Field studies of the Audit Standards Work Group and discussions with State auditors indicated that

difficulties were encountered as a result of lack of coordination of Federal and State audit effort.

Language to accomplish our suggestions is attached to this statement.

Consolidation of Federal Assistance Programs

Title II of S. 3140 provides a method to achieve consolidation of Federal assistance programs. It provides that the President shall from time to time examine the various Federal assistance programs established by law and shall determine what consolidations of such programs are necessary or desirable to make the programs or aspects thereof more consistent, efficient, and effective. The President is then to submit consolidation plans to the Congress for review and they would become law unless rejected by either House of the Congress.

We believe that title II of S. 3140 provides an effective and practical means for achieving constructive action to consolidate those Federal assistance programs which are appropriate for such consolidation. The growth in the number of these programs in recent years has created a highly complex structure within the Government and causes confusion among the recipients as well as needless difficulties in administration for the Federal administrators. The consolidation plan approach provides an avenue for constructive remedial action through proposals made by the President based on studies and consideration by those entities which administer the programs proposed for consolidation.

Several examples based on work by our Office illustrate the potential for consolidation of programs. Our report "Study of Child-Care Activities in the District of Columbia," issued to the Congress in January 1972 identified 11 Federal

programs for various types of child care financed by five Federal agencies and our study evidenced conditions which could be greatly improved by consolidating these programs.

In our report "Federal Programs for the Benefit of Disadvantaged Preschool Children in Los Angeles County, California" which covered preschool programs supported by the Office of Economic Opportunity and the Office of Education of the Department of Health, Education, and Welfare, we recommended that a determination be made of whether these programs should be consolidated under a single Federal agency.

A survey of mental retardation programs identified 31 such programs administered by five agencies within HEW for which \$723 million was programmed for 1972 under various statutes for providing funds to aid the mentally retarded. Another survey in the area of nutrition found 30 programs financed by the Department of Agriculture, Office of Education, and OEO which in whole or in part deal with various aspects of nutrition; 8 of these programs are in the Nutrition Service of the Department of Agriculture. These surveys were initiated merely to get an inventory of such programs and while we did not review them in sufficient depth to reach conclusions, we believe that consolidation of some of these programs would be beneficial to their administration and effectiveness.

We note that section 1005(a) (page 11) within title II provides that a consolidation plan shall become effective at the end of the first period of 60 calendar days of continuous session of the Congress after date on which the plan is transmitted to the Congress. We believe it desirable

that a consolidation plan become effective on the first day of a month and suggest that section 1005(a) be revised to provide that a plan would be effective on the first day of the month following the 60-day period.

Joint Funding Simplification

Title III of S. 3140 would amend the Intergovernmental Cooperation Act of 1968 by adding to it a new title VIII-Joint Funding Simplification.

We fully support the general objective of simplifying and improving the administration of related grant-in-aid programs. Today's large number of individual grant-in-aid programs, each with its own set of complex special requirements, separate authorizations and appropriations, cost-sharing ratios, allocation formulas, and financial procedures, makes it increasingly difficult to manage and administer those programs in a comprehensive or efficient manner.

There probably is much in the way of coordinating and standardizing current Federal grant-in-aid programs which could be done on an administrative level without additional legislation. However, we believe that the real key to significantly improved administration lies in the legislative consolidation of programs into broader categories of assistance, and the placement of like programs in a single agency, rather than establishing an administrative apparatus to deal with a continuing proliferation of single narrow purpose programs. As consolidations under title II occur there should be less need for implementing joint funding action under title III.

If title III, regarding joint funding, is considered favorably for enactment, we believe that it should be carefully and gradually implemented under the required

Presidential guidelines with provision for thorough evaluations of results achieved, and that a specific provision should be included in the legislation for limiting its application to geographical areas or perhaps to programs. Our concern is that there could exist pressures which might force too rapid an adoption of untested concepts and procedures, and once placed in operation, would make difficult the reversal of procedures found to be unworkable.

With respect to specific provisions of title III, section 802 of the proposed new title VIII of the 1968 act, as it relates to intradepartmental joint projects, would permit the inauguration of the program in all affected agencies without provision for going through an experimental and testing period. Although interdepartmental projects authorized by section 803 are limited to a 3-year period, they are not otherwise restricted as to geographic areas or programs. A prior bill (S. 2479 - 91st Congress) restricted the number of projects to 100 in any fiscal year and to 250 in the 3-year period authorized in that bill. We would prefer first having a limited application to eliminate any problem areas prior to full-scale implementation.

Legislation limited in its application as indicated above would not only serve to more specifically delineate the advisability of full implementation of the proposals, but would also provide valuable information relating to programs which might be more efficiently administered if consolidated as contemplated by title II.

Section 803(d) which authorizes the establishment of joint management funds to account for projects financed from more than one Federal program or appropriation, provides that any excess funds therein should be

returned to the participating Federal agencies in accordance with a mutually acceptable formula which provides an equitable distribution to the applicable appropriations. Inherent in the joint funding concept is the possibility that the actual spending for individual programs merged into a joint program under a joint fund may be somewhat different than was planned when the joint project was established, although the sum of the individual program expenditures would not exceed the overall total. The extent of variance between the plans and the actual results for each program in a joint project may or may not be discernible upon completion. This fact is presented as a matter of information and not necessarily as an objection to the joint funding concept. A similar situation would apply to intra-agency joint funds under section 80²(d).

This concludes my statement, Mr. Chairman. I shall be pleased to answer any questions you or the other members of the Subcommittee may have.

ATTACHMENT TO THE STATEMENT

BY

THE COMPTROLLER GENERAL

PROPOSED REVISIONS IN TITLE I OF S. 3140

"SEC. 701. It is the purpose of this title to encourage simplification and standardization of financial and other administrative requirements of federally assisted programs, to promote among Federal agencies administering such programs, accounting and auditing policies that rely on State and local auditing and financial management control systems meeting prescribed standards, and to authorize the issuance of standards governing the auditing of federally assisted programs.

"SEC. 702. The President shall promulgate regulations which to the extent feasible, simplify and make uniform the accounting and financial reporting and other administrative requirements imposed by Federal agencies on recipients under federally assisted programs."

"SEC. 703(a). The Comptroller General, in consultation with the Director of the Office of Management and Budget, shall develop, issue, maintain and interpret standards of auditing for the guidance of Federal executive agencies, State and local governments, and independent public accountants, engaged in the review and audit of federally assisted programs. Such standards shall serve the purpose of providing guidance to the various Federal, State, and local governments but shall not be construed as relieving such governments of the responsibility for the effective administration of their audit programs."

"SEC. 703(b). The Comptroller General shall, in the course of carrying out his audit responsibilities, consider and report to the Congress on

the utilization made by Federal agencies of the audits performed by State and local governments, or independent public accountants, and on the implementation of the standards issued pursuant to subsection 703(a).

"SEC. 704(e). To facilitate proper utilization of the audit standards issued under Section 703 and to provide liaison and coordination in audit activities between the Federal agencies and the State and local governments, the President shall provide on a regional level for the:

(1) Coordination of evaluations to be made by Federal Departments and agencies of the audit organizations and audit output of States and local governments, so as to avoid duplications, overlaps and other conflicts.

(2) Establishment of priorities for the performance of audits when requested to do so by Federal, State, or local governments.

(3) Consideration and resolution of problems of an intergovernmental audit nature brought by Federal, State, or local governments.

(4) Reference of questions of interpretation of the audit standards to the Comptroller General as provided in Section 703(a).

Present Subsection 703(e) should be designated Section 703(f) and the remaining subsections changed accordingly.